

Message Text

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ACTION EB-07

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 5042

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

USMISSION GENEVA

LIMITED OFFICIAL USE PRETORIA 3370

E.O. 11652: N/A

TAGS: ETRD, GATT, SF

SUBJ: ANTICIPATED EFFECTS OF SOUTH AFRICAN IMPORT DEPOSIT
SCHEME

REF: PRETORIA 3227

1. SUMMARY. SOUNDINGS WITH AMERICAN-OWNED FIRMS AND OTHER SOURCES SUGGEST THAT EFFECT OF 20 PERCENT IMPORT DEPOSIT PLAN ON SOUTH AFRICAN IMPORTS AND ON US SUBSIDIARIES IS LIKELY TO BE LIMITED. HOWEVER, TIGHT CREDIT AND CASH FLOW SITUATION WILL HAVE DISTINCT IMPACT. END SUMMARY.

2. REFTEL REPORTED THAT SAG WOULD FOR BALANCE OF PAYMENTS REASONS BEGINNING AUG 2 REQUIRE A 20 PERCENT DEPOSIT ON IMPORTS REPAYABLE AFTER SIX MONTHS WITH NO INTEREST.

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EM AFTER INITIAL PROFESSIONS OF CONCERN OVER EXPECTED

CONSEQUENCES OF IMPORT DEPOSIT SCHEME, MOST BUSINESS FIRMS SEEM TO BE ADJUSTING TO NEW SITUATION. AMONG SOME RELIEF HAS BEEN EXPRESSED THAT DEPOSIT REQUIREMENT WAS NOT HIGHER AND THAT IT IS BEING TRIED IN PLACE OF MORE STRINGENT MEASURES, E.G. DEVALUATION.

4. CONFLICTING REPORTS RECEIVED ON WHETHER BANKS ABLE TO HANDLE ADDED CREDIT REQUIREMENTS ESTIMATED AT R70 MILLION (ONE RAND EQUALS \$1.15) A MONTH. INFLATIONARY EFFECT ON PRICES ALONG WITH SIMULTANEOUS INCREASE IN BANK RATE TO 9 PERCENT ESTIMATED BY ONE DURBAN SOURCE AS 2 PERCENT. THIS SEEMS HIGH EXCEPT ON GOODS WITH LARGE IMPORT COMPONENT ESPECIALLY AS GOVERNMENT AUSTERITY MEASURES PUT CRIMP IN SPENDING. CAR PRICES MAY GO UP 1 1/2-2 PERCENT AND THE COST OF PRODUCING TV SETS BY 3 PERCENT. LATTER MAY HOWEVER BE ABSORBED BY SELLERS SINCE PENT-UP DEMAND NOW BEING MET AND PRICES UNDER PRESSURE.

5. SMALL BUSINESSMEN AND MANUFACTURERS USING HIGH PERCENTAGE OF RAW MATERIALS WILL BE HARDEST HIT. CAPE TOWN REPORTS CLOTHING, FOOTWEAR, CHEMICAL AND PHARMACEUTICALS LIKELY TO BE PARTICULARLY AFFECTED.

6. EXCEPT FOR AUTOMOTIVE INDUSTRY WHICH ALREADY IN DEPRESSED STATE AND UNHAPPY OVER THIS NEW BLOW, CAPE TOWN REPORTS US FIRMS EXPECT DIRECT IMPACT ON OPERATIONS TO BE SLIGHT SINCE MOST MATERIALS PROCURED LOCALLY AND IMPORTS ALREADY BEING FINANCED FROM US SOURCES.

7. DURBAN REPORTS THREE US SHIPPING LINES SERVING SOUTH AFRICA EXPECT TO SUFFER REDUCED CARGOES. WRANGLER (CASUAL CLOTHES) WHICH IMPORTS 52 PERCENT OF RAW MATERIALS EXPECTS TO BE AFFECTED BUT OTHER US SUBSIDIARIES LESS SO.

8. JOHANNESBURG REPORTS US FIRMS WITH MAJOR PLANTS HEAVILY DEPENDENT ON PETROLEUM BASED IMPORTS (WHICH EXEMPT FROM SCHEME) EXPECT MINIMAL EFFECTS WHILE SALES COMPANIES EXPECT DIFFICULT TO VERY TOUGH SITUATION. ALSO FIRMS DEALING WITH SA PARASTATALS OR HAVING EXPORT-RELATED MANUFACTURING EXPECT GOOD HEARING ON EXEMPTIONS.

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OM JOHANNESBURG ALSO REPORTS CAPITAL GOODS IMPORTERS HAVE ACCESS TO ADEQUATE PRIVATE FINANCING ABROAD TO COVER IMPORT DEPOSIT AND INDEED US ACCEPTANCE CREDITS AVAILABLE AT 7 1/2 PERCENT. WHILE IN THEORY SA PRIME RATE NOT 12 1/2 PERCENT, EFFECTIVE RATE IS AT LEAST 13 1/2 PERCENT AND IN SOME CASES WITH FORWARD COVER AND FEES COULD BE AS HIGH AS 16 PERCENT. THUS, HARDER HIT ARE SALES AND MANUFACTURING FIRMS

ALREADY IN DIFFICULT CASH-FLOW SITUATIONS WHICH WILL HAVE TO
FIND LOCAL SHORT-TERM FINANCING OF 20 PERCENT DEPOSIT.

10. JOHANNESBURG PREDICTS, BASED ON SOUNDINGS WITH IMPORTERS,
THAT LARGER RANGE OF CONSUMER GOODS WILL BECOME SUBJECTED TO
QUOTAS AND SAG PARASTATALS WILL BE INCREASINGLY FORCED TO
DEFER PROJECTS.

11. SA TRADE DEFICIT IN FIRST SIX MONTHS OF 1976 ROSE TO
R915 MILLION, COMPARED TO R796.6 MILLION IN SAME PERIOD OF
1975 BEFORE RAND WAS DEVALUED (GOLD EXPORTS AND OIL AND
MILITARY IMPORTS EXCLUDED). A POSITIVE FEATURE WAS 22
PERCENT GROWTH OF EXPORTS IN SECOND QUARTER, LED BY
DIAMONDS AND OTHER MINERALS AND METALS.
BOWDLER

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